



Weekly Market Insight

July 4, 2008

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

A Not-So-Happy 4th of July

Forgive Americans for being in a less than festive mood this 4th of July. The jobless rate is rising, wages are badly trailing living costs as gasoline sets new records, and both equity and housing wealth have melted away. Looking ahead, there are divergent views on what comes next. But in a growing degree of unanimity, none of those stories has a truly happy ending, if the "ending" is defined as the next year or two.

There are those who see in the housing morass nothing but trouble for the economy ahead. A further drop in home prices does seem inevitable in light of tight mortgage markets and a huge excess supply of new, and existing (including foreclosed) dwellings. Americans may be spending their tax rebates for now.

But what comes thereafter, if energy prices continue to squeeze consumer buying power, and jobs continue to ebb? While it's not our view, a case can be made that an unprecedented drop in housing wealth (without equal since the Great Depression) and the consequent strain on the financial sector will see a recession next year. If so, corporate earnings have a long way to tumble, and the S&P 500 will remain under water.

Our more "optimistic" take on growth emphasizes the trade benefits of a cheap US dollar, healthy global demand, and the increasingly protectionist role played by rising shipping costs to US markets from far afield competitors. Moreover, the first fiscal stimulus package is increasingly likely to be followed by Act II, with another dose of rebates passed by a worried pre-election Congress. That's the same Congress that has opted to provide a bailout for some subprime borrowers, which together with the price correction, might help set a floor under housing activity by year end.

But that story also lacks a happy ending. Waiting in the wings is the Federal Reserve, which will follow the ECB in sacrificing most of 2009 growth in order to clamp down on inflation.

The best Americans can hope for is some combination of well-below-potential GDP growth (not much better than 1%) and rising interest rates. Earnings will be a bit better, but they will be discounted at higher yields.

Canada's equity market can do better, given that the source of the inflation pressures—high oil and material prices—pushes the bottom lines for roughly half of the index. But here too, higher interest rates will be the tradeoff for any improvement in economic growth next year. July 1st wasn't therefore much happier than the 4th will be for our American cousins.

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International Stock Indexes

Thursday, July 03, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	DJ World Index	261.6	258.56	260.28	-1.1	-0.42	-13.5	320.33	260.28	-15.4	7.2
World	DJ World ex U.S.	236.6	233.39	234.72	-1.54	-0.65	-13.7	291.11	231.73	-14.4	11.5
World	MSCI EAFE*	n.a.	n.a.	1917.68	-8.41	-0.44	-14.9	2388.74	1913.54	-16.2	9.3
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	139.41	137.36	137.58	-1.63	-1.17	-13	172.49	133.78	-15.4	9.1
Australia	All Ordinaries	5170	5069.4	5094	-117.6	-2.26	-20.7	6853.6	5094	-20.3	6.4
Australia	S & P/ASX 200	5047.2	4969.1	4998.3	-96.5	-1.89	-21.2	6828.7	4998.3	-21.4	5.4
China	DJ CBN China 600	22515.62	20979.48	22168.86	562.35	2.6	-46.5	44631.83	21535.15	-20.1	38.3
China	Dow Jones China 88	244.52	228.7	239.99	3.54	1.5	-49.2	530.54	236.45	-22	35.2
China	Shanghai Composite	2746.37	2566.53	2703.53	48.8	1.84	-48.6	6092.06	2651.61	-25.2	n.a.
Hong Kong	Hang Seng	21742.07	21163.57	21242.78	-461.67	-2.13	-23.6	31638.22	20387.13	-4.5	14.4
India	Bombay Sensex	13458.3	12934.92	13094.11	-570.51	-4.18	-35.5	20873.33	12961.68	-11.9	22
Indonesia	Jakarta Composite	2323.4	2275.55	2286.61	-91.86	-3.86	-16.7	2830.26	1908.64	3	26.2
Malaysia	Kuala Lumpur Composite	1174.96	1149.09	1153.7	...	Closed	-20.2	1516.22	1153.7	-15.7	8.9
New Zealand	NZSX-50	3163.39	3091.32	3094.42	-68.97	-2.18	-23.4	4332.29	3094.42	-27	-1.5
Pakistan	KSE 100	12073.23	12035.21	12035.21	-90.89	-0.75	-14.5	15676.34	11162.17	-13.7	17.3
Philippines	Manila Composite	2364.95	2289.21	2339.84	-54.06	-2.26	-35.4	3873.5	2339.84	-38.5	7.3
Singapore	Straits Times	2890.74	2862.27	2880.45	-25.78	-0.89	-16.9	3831.19	2792.75	-17.1	10.2
South Korea	Kospi	1616.65	1580.83	1606.54	-17.06	-1.05	-15.3	2064.85	1574.44	-13.1	16.4
Sri Lanka	Colombo Stock Exchange	2439.97	2420.06	2420.06	-13.29	-0.55	-4.8	2681.27	2354.98	-4.7	8.4
Taiwan	Weighted	7439.47	7115.07	7394.1	40.24	0.55	-13.1	9809.88	7353.86	-19.2	5.6
Thailand	SET	753.66	742.13	742.15	-17.86	-2.35	-13.5	915.03	728.58	-9.9	3.2
Japan	Nikkei Stock Avg	13326.95	13118.89	13265.4	-20.97	-0.16	-13.3	18261.98	11787.51	-27.2	4.5
Japan	Nikkei 300	265.93	261.62	265.15	-0.33	-0.12	-11.9	359.95	234.2	-26.2	5.7
Europe											
Europe	DJ Stoxx 600	283.95	276.05	283.08	2.39	0.85	-22.4	399.71	280.69	-28.3	0.6
Europe	DJ Stoxx 50	2883.21	2802.33	2873.68	33.1	1.17	-22	3998.93	2840.56	-27.2	-2.1
Euro zone	DJ Euro Stoxx 50	3342.95	3238.44	3330.9	42.4	1.29	-24.3	4557.57	3288.52	-25.8	1.3
Euro zone	DJ Euro Stoxx	317.39	307.84	316.14	2.8	0.89	-23.8	441.18	313.34	-27.4	2.5
Austria	ATX	3865.78	3725.77	3865.12	64.4	1.69	-14.4	4981.87	3524.64	-21.7	7.8
Belgium	Bel-20	3095.63	3023.69	3087.57	5.74	0.19	-25.2	4656.53	3081.83	-33.5	-0.4
Czech Republic	PX 50	1461	1422.2	1441.4	-30	-2.04	-20.6	1936.9	1405.1	-24	5.9
Denmark	OMX Copenhagen	388.05	374.58	380.46	-7.59	-1.96	-15.2	492.84	368.52	-20.8	6.9
Finland	OMX Helsinki	8396.86	8121.57	8359.06	63.75	0.77	-27.9	12656.77	8295.31	-27.5	4.8
France	CAC 40	4358.02	4224.13	4343.99	47.51	1.11	-22.6	6125.6	4296.48	-28.3	0.6
Germany	DAX	6392.08	6200.56	6353.74	48.32	0.77	-21.2	8105.69	6182.3	-20.5	11.2
Hungary	BUX	20091.75	19817.52	20091.75	-124.94	-0.62	-23.4	30118.12	20091.75	-31.1	1.9
Italy	S & P/MIB	29206	28528	29094	120	0.41	-24.5	42545	28786	-30.8	-3.7
Netherlands	AEX	409.93	400.24	408.55	0.15	0.037	-20.8	561.9	408.4	-25.8	1.7
Norway	All-Shares	531.38	513.14	515.64	-15.74	-2.96	-9.5	605.05	442.79	-13.5	17.6
Poland	WIG	40261.24	39684.59	40101.76	-318.2	-0.79	-27.9	67568.51	40101.76	-40	11.9
Portugal	PSI 20	8748.76	8522.11	8694.85	-27	-0.31	-33.2	13702.03	8486.91	-35.2	4.8
Russia	DJ Russia Titans 10	6955.56	6867.99	6878.49	-92.49	-1.33	-10.31	7920.96	6226.15	-1.4	43.7
Russia	RTS Index	2250.96	2211.73	2211.73	-43.7	-1.94	-3.4	2487.92	1820.3	12.1	45.5
Spain	IBEX 35	12032.7	11629.7	11980.1	123.2	1.04	-21.1	15945.7	11770.9	-19.6	6.8
Sweden	SX All Share	274.65	267.12	274.1	-0.55	-0.2	-22.1	427.24	272.92	-34.1	2.1
Switzerland	Swiss Market	6895.93	6738.79	6844.06	0.31	0.005	-19.3	9299.8	6774.26	-25.8	2.9
Turkey	Istanbul National 100	34450.22	32645.9	33919.76	353.36	1.05	-38.9	58231.9	33208.24	-32	7.1
U.K.	FTSE 100	5490.6	5358.5	5476.6	50.3	0.93	-15.2	6730.7	5414.4	-17.5	2
U.K.	FTSE 250	8658.2	8465.8	8656.4	-1.8	-0.02	-18.8	11922.9	8656.4	-26.7	5.2
Americas											
Americas	DJ Americas	335.32	330.06	332.97	-0.74	-0.22	-11.7	399.86	330.4	-13.9	4.9
Argentina	Merval	2026.66	1989.01	1998.37	-34.66	-1.7	-7.13	2351.44	1833.71	-11.1	13.7
Brazil	Sao Paulo Bovespa	61600.61	59242.85	59273.38	-1832.84	-3	-7.2	73516.8	48015.55	6	32.8
Canada	S & P/TSX Comp	14143.57	13796.48	14143.57	109.46	0.78	2.2	15073.13	12132.13	0.5	12.6
Chile	Santiago IPSA	2840.55	2756.39	2758.83	-81.06	-2.85	-9.6	3496.18	2427.11	-20.2	10.2
Mexico	IPC All-Share	28809.56	28459.67	28465.55	-215.28	-0.75	-3.6	32836.12	25284.88	-11.5	28.2
Venezuela	Caracas General	38508.19	37360.31	38258.27	751.78	2.004	0.9	42249.77	34172.43	-4.5	21.2
Other Countries											
Egypt	CASE 30	10067.07	9949.93	9949.93	-91.93	-0.92	-5.7	11935.67	7517.75	21.8	n.a.
Israel	Tel Aviv	1053.07	1029.99	1030.68	-34.9	-3.28	-15.3	1237.13	964.38	-9.6	16.2
South Africa	Johannesburg All Share	29303.69	28133.58	28392.19	-911.5	-3.11	-2	33232.89	25135.13	-1.7	25.9

* Europe, Australia, Far East; U.S.-dollar terms

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jul 3	a month ago	a year ago
S&P/TSX Composite	14143.57	14728.61	14064.74
S&P 500	1262.90	1377.65	1524.87
Dow Jones Industrial Average	11288.54	12402.8	13577.3

INTEREST / FX RATES	Jul 4	a month ago	a year ago
Prime Can (%)	4.75	4.75	6.00
Prime US (%)	5.00	5.00	8.25
30 Day BA Can (%)	3.16	3.037	4.53
3 month US T-Bill (%)	1.83	1.82	4.94
3 month Can T-Bill (%)	2.481	2.571	4.465
10yr US Bond (%)	3.975	3.967	5.180
10yr Can Bond (%)	3.72	3.70	4.71
10yr-2yr US Spread (bps)	144.20	156.20	20.50
10yr-2yr Spread Can (bps)	54.00	79.00	-3.00
US\$/Cdn\$	0.9842	0.9823	1.0492
US\$/Euro	1.5689	1.5693	1.3605
Yen/US\$	106.605	105.55	123.39

INTERNATIONAL INTEREST RATES	Jul 4		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.79	NA	NA
Canada	3.47	68	66
Euro-zone	4.96	217	216
Switzerland	2.80	1	0
Japan	0.93	-186	-186
Australia	7.79	500	501
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.98	NA	NA
Canada	3.72	-25.5	-32.6
Euro-zone	4.98	100.7	95.7
Switzerland	3.26	-71.7	-72.3
Japan	1.64	-233.5	-240.6
Australia	6.42	244.8	244.5

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